TESTIMONY OF AL MULHALL

Good morning Madam Chairman, members of the Commission and staff. My name is Al Mulhall. I am the Senior Director of Market Research of Potash Corporation of Saskatchewan Inc., of which PCS Nitrogen Fertilizer, L.P. and PCS Nitrogen Ohio, L.P., are indirect wholly owned subsidiaries and U.S. producers of solid urea. I have been with PCS for 43 years, and have spent a total of 43 years working in the fertilizer industry. I have a Bachelor's Degree in Chemistry and have completed MBA coursework. I have published numerous articles on fertilizer markets and serve on a number of the task forces and committees of the International Fertilizer Industry Association (known as "IFA"). I am a Board Member of the Fertilizer Roundtable, and previously served as the Chairman of The Fertilizer Institute's Economics Council. I have been granted the honor of appearing here today given the recent retirement of Jim Dietz, our Chief Operating Officer, who appeared before you in the last review. The continuation of the antidumping orders on solid urea from Russia and Ukraine is very important to PCS Nitrogen, and will continue to have a pivotal role in the future of our U.S. urea operations.

Today, we are asking the Commission to allow the antidumping orders on urea from Russia and Ukraine to remain in effect for another five years. PCS, like CF, remains convinced that the United States is an appealing market for Russian and Ukrainian urea and it is likely that revocation of the orders would result in a significant influx of low-priced Russian and Ukrainian urea. Today I will try and explain why.

One of the big issues the Commission wrestled with in its 2005 review of this order was the relationship between granular and prilled urea. The Commission closely examined whether prilled imports from Russia and Ukraine would really compete with the U.S. solid urea market, which more heavily uses granular urea. As a U.S. producer with both prilled and granular urea production, PCS Nitrogen would like to share some of its experience in producing and marketing both forms of solid urea.

PCS Nitrogen and its affiliate, PCS Nitrogen Ohio, L.P. (which I will refer to collectively as "PCS Nitrogen") each operate a urea production facility in the United States with a combined capacity of nearly 1 million short tons of urea per year, and most of our solid urea capacity is for prilled urea. Our plant in Lima, Ohio produces both prilled and granular urea. PCS Nitrogen was very pleased to host Commissioners Lane and Pinkert , along with a representative from Commissioner Pearson's office and Commission staff on a tour of its granular and prilled production facilities in Lima, OH this past summer. Our facility in Augusta, Georgia produces prilled urea only.

When it comes to solid urea production, there are two important facts for the Commission to keep in mind. First and most important, solid urea is made using natural gas as the primary feedstock, and only nominally as an energy source. It is the basic raw material and accounts for at least half the cost of production of solid urea. Accordingly, the cost of natural gas in relation to urea prices will always drive industry performance. Secondly, as we hope the Commissioners learned at their visit to our Lima plant this summer, most of the solid urea production process – whether prilled or granular – is the same up until the stage where the urea "melt" is solidified, either

through prilling or granulation. Accordingly, the processes for producing prilled and granular urea are more similar than they are different.

As to the products themselves, there are, of course, differences between prilled and granular urea. There always have been. Granular has certain advantages in certain agricultural applications, and prilled has been favored by other applications. At PCS, we sell nearly all of our granular and a substantial portion of our prilled production for use as a nitrogen fertilizer -- which includes sales to both the agricultural and lawn/garden markets. Of our total prilled production, less than half is sold into the industrial markets for non-fertilizer use. These markets include animal feed, adhesives, and other specialty applications.

While the prevalence of granular urea in the U.S. market has unquestionably grown, there are two relatively simple reasons. The first is that granular urea has certain advantages in some applications, including use in bulk blending of urea with other solid fertilizers, which accounts for only about 20% of the urea applied by American farmers.

Another very important reason why use of granular urea has grown in relation to prilled urea is that as older U.S. plants have closed, the supply that has been removed from the market was primarily prilled. This is because the older plants tended to have older prilling technology. Similarly, as new capacity has come on-stream around the world, it has been granular capacity. We can see that now even in Russia and Ukraine, where a number of granulation facilities are now in operation or are under construction.

The IFDC capacity report provided in Exhibit 6 of our pre-hearing brief lists Russia's granulated urea capacity totaling 2.5 million metric tons urea, with an additional one million metric tons for Ukraine. Together this capacity is close to 60% of the current U.S. urea import level. At the time of the last review, all Russian and Ukrainian capacity was prilled. Indeed, the majority of new capacity in those two countries since the last review has been granular. Likewise, more granular supply is available in the United States and from countries supplying the U.S. market.

The next question, then, is how and whether prices for prilled and granular urea affect one another. Although the U.S. market has shifted to granular, this does not mean that U.S. purchasers could not or do not or would not purchase prills when they are available and particularly if they are significantly cheaper than granular product. Buyers of urea are price sensitive and, with sufficient availability of prills at a price discount, many customers will switch to prills or force their granular suppliers to reduce prices.

As I mentioned, PCS Nitrogen produces both prilled and granular urea. Nearly all of our production—both prilled and granular—is highly sensitive to market price fluctuations and to competition from imports. Pricing for urea to many of our industrial users is linked to published prilled and granular prices that appear in Green Markets and similar fertilizer trade publications. Our industrial customers follow these prices and reference them in negotiations. Without going into details in this public forum, certain of our contracts for sales of prilled urea to industrial customers are tied to published prices, including prices for granular urea. Similarly, much of the prilled product that we

sell into the ag market for fertilizer use is priced by reference to the published granular price.

We compete with imports every day, and one Russian producer has actually sold both prilled and granular urea in the U.S. market since the last sunset review in 2005, demonstrating that the U.S. market is attractive for both forms of imported urea. Our customers are savvy and cost conscious. We must be keenly aware of the published prices in the ag markets, and be prepared to remain competitive with market pricing production. In the first 8 months of 2011, the price for Russian and Ukrainian product exported from the Black Sea is at about $ 405/MT, which translates into a delivered U.S. Gulf price of about $440/MT, based upon current ocean freight rates over this period. If Russian and Ukrainian urea began to be shipped into the U.S. market, based on expected market reaction, our prices would likely be impacted, given that the average price of prilled imports into the Gulf in this same period has been $466/MT.

When the antidumping orders on urea from Estonia, Romania and other FSU countries were revoked in December 2004, trading companies began to quickly move prilled urea from those countries into the U.S. market, and the Romanian and Estonian prilled urea was being sold in the United States for all applications, including feed, industrial, lawn and garden, and fertilizer. Today, prilled urea imports from China and Romania, among others, are being sold into the U.S. market for both agricultural and industrial applications. In the fertilizer market, prilled imports compete with granular.

Revocation of the antidumping orders would likely result in increased shipments from Russia and Ukraine – which could include prilled and/or granular urea -- with resulting pressure on U.S. prices due to underselling and volume additions. One thing that has not changed since 1986 is the willingness of Russian and Ukrainian exporters and the traders who market their urea, to undercut the market to move volume. They are doing it in third country markets today. It is likely that they will do it again to gain market share here, resulting in likely negative effects on the U.S. industry's sales and volumes.

Here in the United States we have been experiencing a relatively stable period of natural gas pricing. Of course, cost is important, but it is the relationship between cost and product price that is critical. High and volatile natural gas prices forced a number of U.S. solid urea plants to close starting in 2003. Indeed, in 2003, increasing natural gas prices led PCS to indefinitely close its urea prill plant in Memphis, Tennessee, and it remains shut today. Nevertheless, many U.S. plants remained competitive and they continue to produce today. U.S. producers, in general, have the advantage of being close to their markets. For the remaining, efficient U.S. producers, that advantage has allowed them to continue to operate in an environment marked by highly volatile natural gas prices and weather the price effects of increasing levels of imports. However, moderation of natural gas prices in the United States produces results in our bottom line only if product prices permit positive margins. Even though a significant share of PCS' production is sold into the non-agricultural markets, the negative effects of Russian and Ukrainian imports on published prices to which many of our industrial

sales are tied would threaten to erode our profitability. We remain concerned about the future performance of PCS Nitrogen if the orders on Russian and Ukrainian product are revoked.

In closing, we recognize that the U.S. industry appears strong in the snapshot provided in this five-year review. But given the cyclical nature of the urea industry, the historical unpredictability of U.S. natural gas prices, and the likelihood of substantial volumes of aggressively priced Russian and Ukrainian imports of solid urea that will enter the U.S. market if the orders are revoked, we respectfully request that the Commission continue the orders for another five years. It is our sincerest hope that within that time period, Russian and Ukrainian domestic natural gas prices will become market-based prices and that the success or failure of Russian and Ukrainian urea exporters will be determined by their efficiencies and not by their government-manipulated gas prices. At that point we will welcome fairly traded urea imports from Russia and Ukraine to join those from other exporting countries.

Thank you for your attention. I will be glad to answer your questions.